

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of	)	
	)	
National Exchange Carrier Association, Inc.	)	WC Docket No. 02-356
Tariff FCC No. 5, Transmittal No. 952	)	
	)	
Comments on Direct Case	)	

**COMMENTS  
of the  
ORGANIZATION FOR THE PROMOTION AND ADVANCEMENT  
OF SMALL TELECOMMUNICATIONS COMPANIES**

**I. INTRODUCTION AND SUMMARY**

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) hereby submits these comments in response to the Direct Case of the National Exchange Carrier Association (NECA)<sup>1</sup> filed in the above captioned proceeding. OPASTCO is a national trade association representing approximately 500 small telecommunications carriers serving rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 2.5 million customers. All of OPASTCO's members are rural telephone companies as defined in 47 U.S.C. §153(37).

Interstate access charges represent a significant portion of small and rural local exchange carriers' (LECs) total revenues. Therefore, it is essential for the LECs participating in the NECA pools to have reasonable assurance that they will be

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<sup>1</sup> *National Exchange Carrier Association, Inc. Tariff No. 5, Transmittal No. 952*, WC Docket No. 02-356, Direct Case of the National Exchange Carrier Association, Inc. (fil. December 2, 2002). (Direct Case)

compensated for the interstate access services they provide to their interexchange carrier (IXC) customers. The dramatic financial decline that has swept the telecommunications industry during the past two years has greatly increased the level of uncollectible interstate access revenues experienced by pool members. Consequently, NECA is justified in amending its tariff in order to compensate for the higher level of uncollectibles experienced as a result of this pervasive financial weakness.

Within its Direct Case, NECA has demonstrated that the present level of uncollectible revenues is greater than the amount that has historically been accounted for within its tariff. Increasing the allowance for uncollectibles for the current tariff period would provide tariff participants with additional needed protection from the nonpayment of access charges that is not fully accomplished through the tariff's proposed security deposit provisions. Therefore, the Commission should affirm the tariff revision for uncollectibles for the period July 1, 2002 to June 30, 2003, as it is a just and reasonable method of protecting those LECs participating in the tariff from losses due to nonpayment of access charges.

## **II. RECENT FINANCIAL STRESS THROUGHOUT THE TELECOMMUNICATIONS INDUSTRY NECESSITATES AN INCREASE IN THE PROVISION FOR UNCOLLECTIBLE REVENUES IN THE NECA TARIFF**

The Commission has asked NECA whether circumstances have changed so as to warrant a revision of the allowance for uncollectible revenues within the interstate access tariff.<sup>2</sup> In comments filed in response to NECA's Direct Case concerning tariff security deposit provisions, OPASTCO explained that the significant and pervasive financial

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<sup>2</sup> *National Exchange Carrier Association, Inc. Tariff No. 5, Transmittal No. 952*, WC Docket No. 02-356, Order, DA 02-3100, para. 6 (rel. Nov. 8, 2002). (Tariff Order)

weakness that has overtaken the telecommunications marketplace has necessitated revisions to the NECA tariff.<sup>3</sup> This industrywide decline has precipitated an unprecedented increase in the level of uncollectibles to the NECA pools, exposing the LEC participants to millions of dollars in unrecoverable access charges.<sup>4</sup> Those comments also justify NECA's proposed increase in the provision for uncollectible revenues and should be incorporated into the record in the instant proceeding.

**III. INCREASING THE TARIFF'S PROVISION FOR UNCOLLECTIBLES IS NECESSARY, SINCE SECURITY DEPOSITS ALONE CANNOT FULLY PROTECT THE LEC PARTICIPANTS FROM FINANCIAL LOSSES DUE TO NONPAYMENT OF ACCESS CHARGES**

The Commission has questioned whether or not an increase in the tariff's provision for uncollectibles is necessary, since this mechanism appears to address the same risk as the proposed additional criteria for the assessment of security deposits.<sup>5</sup> NECA has correctly explained in its Direct Case that both forms of relief are necessary, due to the extreme level of uncollectible losses that have occurred as a result of the recent bankruptcies of certain IXC customers served by the LEC participants of the pools.<sup>6</sup> Providing for a higher level of uncollectibles in the tariff would allow these LECs to shield themselves from any undue financial risk not accounted for by the companion proposal to assess security deposits on interstate access customers who become uncreditworthy.

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<sup>3</sup> See, OPASTCO Comments, *National Exchange Carrier Association, Inc. Tariff FCC No. 5, Transmittal No. 951*, WC Docket No. 02-340, pp. 2-4 (fil. Dec. 5, 2002).

<sup>4</sup> *Ibid.*

<sup>5</sup> Tariff Order, para. 7.

<sup>6</sup> Direct Case, p. 10.

NECA has convincingly demonstrated that the substantial increase in uncollectibles<sup>7</sup> demands an immediate response, so that the financial health of the LECs participating in the tariff is not jeopardized. In its earlier *Customer Deposit Direct Case*, NECA projected that total uncollectible revenue for the current tariff Test Period is to be \$15 million in excess of the tariff's existing \$15,000 uncollectible provision.<sup>8</sup> This is so, even with the additional security deposit criteria that NECA has proposed.<sup>9</sup>

Thus, the ability of LEC tariff participants to take the preemptive measure of requiring security deposits from at-risk interstate access customers does not eliminate uncollectible revenues, but merely reduces the amount that are likely to occur.<sup>10</sup> In the absence of an increased provision for uncollectibles, the pools would still be exposed to significant non-recovery of interstate access revenues. Since small and rural LECs rely so heavily on this revenue stream for their cost recovery, high uncollectible levels for the pools would have a serious negative financial impact on individual pool participants.

Based on its experience with a previous bankruptcy, NECA estimates that the bulk of all uncollectibles are reported to the pool months after a bankrupt interstate access customer's initial default.<sup>11</sup> In light of this experience, NECA anticipates that the bulk of the uncollectibles related to the \$41 billion bankruptcy of MCI/WorldCom, Inc. are likely

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<sup>7</sup> NECA reports that, for 2002, uncollectible revenues are about 1,000 percent above the levels experienced during 1998, and are expected to be over 2,300 percent higher once all of the LECs participating in the pools report the total uncollectibles resulting from the recent IXC bankruptcies. *See*, Direct Case, pp. 3-4.

<sup>8</sup> *National Exchange Carrier Association, Inc. Tariff No. 5, Transmittal No. 951*, WC Docket No. 02-340, Direct Case of the National Exchange Carrier Association, Inc., p. 3 (fil. Nov. 21, 2002). (Customer Deposit Direct Case)

<sup>9</sup> *Ibid.*

<sup>10</sup> *Id.*, pp. 3, 8.

<sup>11</sup> *Id.*, p. 4.

to be reported during the current tariff period concluding on June 30, 2003.

Consequently, the Commission should not view it as unreasonable for LEC pool participants to request an increased provision for uncollectibles during this current tariff Test Period, so they can be protected from these and any other uncollectibles resulting from the financial hardship of an interstate access customer.

#### **IV. CONCLUSION**

The Commission should approve NECA's increased provision for uncollectibles during the current tariff Test Period ending June 30, 2003. Approval of this provision is necessary due to the weakened financial health of the telecommunications industry as reflected by a dramatic increase in LEC pool members' uncollectible interstate access revenues. NECA's Direct Case demonstrates that its companion proposal to amend the criteria for the assessment of security deposits alone will not adequately guard against all expected losses due to recent bankruptcies. Therefore, an increase in the provision for uncollectibles is indeed reasonable, and should be promptly approved by the Commission as part of Tariff No. 5, Transmittal No. 952. It is absolutely essential that NECA's tariff be able to protect the pool members' ability to receive payment for all of the interstate access services that they provide.

Respectfully submitted,

**THE ORGANIZATION FOR THE  
PROMOTION AND ADVANCEMENT OF  
SMALL TELECOMMUNICATIONS COMPANIES**

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## **CERTIFICATE OF SERVICE**

I, Jeffrey W. Smith, hereby certify that a copy of the comments by the Organization for the Promotion and Advancement of Small Telecommunications Companies was sent by first class United States mail, postage prepaid, on this, the 16<sup>th</sup> day of December, 2002, to those listed on the attached list.

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## **SERVICE LIST**

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**DA 02-3100**

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